The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DEWINE. Mr. President, I ask unanimous consent that the order for the quorum call be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DEWINE. Mr. President, I ask unanimous consent that Senators LEAHY, GRAHAM, and ALLEN be added as cosponsors to the bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DEWINE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DEWINE. Mr. President, I ask unanimous consent that the order for the quorum call be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DEWINE. Mr. President, I yield all time.

The PRESIDING OFFICER. All time has been yielded.

The question is on the engrossment and third reading of the bill.

The bill (S. 384) was ordered to be engrossed for a third reading, was read the third time, and passed, as follows:

S. 384

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. TWO-YEAR EXTENSION OF WORKING GROUP.

Section 802(b)(1) of the Japanese Imperial Government Disclosure Act of 2000 (Public Law 106–567; 114 Stat. 2865) is amended by striking ''4 years'' and inserting ''6 years''.

MORNING BUSINESS

Mr. DEWINE. Mr. President, I ask unanimous consent that there be a period of morning business with Senators permitted to speak for up to 10 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DEWINE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Ms. MURKOWSKI. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

TRIBUTE TO AMBASSADOR MICHAEL KERGIN

Ms. MURKOWSKI. Mr. President, I rise today to honor an individual who is a credit to his nation, his government, and the office in which he serves. He has earned the admiration and appreciation of his staff, the respect of his colleagues, and the friendship of many of us here in Washington. Sadly, he is also a man whose current service in our Nation's Capital has come to an end, and he will soon be departing to return home. The man I am speaking of this morning is Canada's Ambassador to the United States, Mr. Michael Kergin.

At the end of February, Ambassador Kergin will be returning to Canada after serving admirably here in Washington for the past 4-plus years. He assumed his position in October of 2000, just the 19th representative to the United States for our northern neighbor—our eastern neighbor for those of us in Alaska. His background prior to serving as Ambassador to the United States is impressive.

He was born in a Canadian military hospital in England. Ambassador Kergin joined the Canadian Department of External Affairs in 1967. He served in New York, Cameroon, and Chile. He was Ambassador to Cuba from 1986 to 1989. In 1998, Ambassador Kergin was asked by Prime Minister Jean Chretian to serve as his Foreign Policy Adviser as well as Assistant Secretary to the Cabinet for Foreign and Defense Policy—the equivalent of our National Security Adviser.

It is from this background that Ambassador Kergin drew when the terrorists attacked on September 11, 2001. If you were to ask the Ambassador about his most memorable activities while here in Washington, working with his U.S. counterparts to prevent further terrorist attacks would rank toward the top of that list—taking our border relations to the next level to fight terrorism by implementing the Smart Border Process to keep terrorists out while allowing for the legitimate flow of commerce and visitors between our nations.

It is appropriate to remember, as we are again considering comprehensive energy legislation, that Ambassador Kergin played a key role in the aftermath of the August 2003 blackout that hit the Northeast through the Canada-United States Power Outage Task Force, which was to improve our integrated electricity grid.

I would also be remiss if I did not mention the Ambassador's work to develop natural gas pipelines from both Canada's MacKenzie Delta and Alaska's North Slope to meet our common energy needs.

Mr. President, many of my colleagues from the West are quick to point out the differences between Eastern and Western United States. Canada is much the same. And when you look at a map, it is readily apparent that the seats of government for both nations are very much in the East. So it was a pleasant surprise for me when I first met Ambassador Kergin to learn that he was from British Columbia. When Alaskans speak about fishing or timber or mining issues, he gets it. He understands the Alaskans' point of view.

I look forward to working with Ambassador Kergin's successor, but I will also miss the good Ambassador's presence here in Washington, DC.

So I would like to say to him: Mr. Ambassador, thank you for your service in our Nation's Capital, and thank you for your willingness to work so closely with Congress and the American people to continue our strong relationship.

With that, Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. BINGAMAN. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Ms. MURKOWSKI). Without objection, it is so ordered.

Mr. BINGAMAN. Madam President, I ask unanimous consent that I be allowed to speak for 15 minutes in morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

GLOBAL WARMING

Mr. BINGAMAN. Madam President, today marks the entry into force of the Kyoto Protocol on Climate Change. Following President Bush's decision to opt out of ratification of that treaty, enforcement of the Protocol fell onto Russian shoulders and was finally ratified by the Russian Federation late last year. Today it is a legally binding treaty.

The basic climate change problem is well understood. We have been told repeatedly in peer reviewed scientific assessments that increasing concentrations of greenhouse gases will lead to an increase in the average global temperature. The increasing temperature of the earth will lead to a large number of important changes to today's climate system. Through past emissions and projected emissions over coming years and decades we expect that the warming will accelerate unless the world alters its emissions path. Indications of warming are already evident in the global temperature record. Last year was the fourth-warmest year since temperature measurements began in the 19th century. The warmest year on record was 1998, followed by 2002 and 2003. Indications are also evident in the vast changes now underway in the Arctic and the bleaching of coral reefs around the world.

Over the years there have been many who have been skeptical of the science that has informed us of the climate change problem. But the mainstream of the scientific community, as evidenced by panels organized through the National Academy of Sciences, has been quite consistent in their views. Our doubling of the pre-industrial level of carbon dioxide has been a major factor in increased global average temperatures.

If human-induced global warming continues on its present path, the

changes to our way of life could be vast. We know this from looking at climates of the past as well as projections made by scientific models. There would be significant changes in water resources, because precipitation patterns will change. The sea level will increase because the oceans will warm and will expand. The ice sheets of Greenland and parts of Antarctica could disintegrate, further adding to long-term sea level rise. A warming of the earth will place major ecological systems at risk, including many of our forests and coral reefs. We are essentially performing a global experiment with our planet, with increasing risk to the future. A prudent course of action would be to take steps now to lower these risks, while we continue to improve our understanding of the implications of the warming of our planet.

The desirability of taking prudent steps now, on a national and international basis, to stem global warming is further highlighted by other developments. Across the United States, an increasing number of individual States are taking policy steps related to global warming. California and New York are moving forward with innovative programs to do their part in minimizing emissions. Add into the mix States like Pennsylvania, Colorado, Texas, Minnesota and others and you can see that a patchwork quilt of climate policies is being formed across the United States. While States can be a great laboratory of ideas, the developing situation really calls out for Federal leadership to get to a more coordinated and rational approach across the country.

The business community is looking for federal leadership as well. At a recent hearing before the Energy Committee, an industry economist called climate change a ''wild card'' that could shape energy markets and governance worldwide. He testified that it would be ''prudent to take preparatory steps'' to reduce carbon dioxide emissions. He is not alone. Many U.S.-based multinational corporations are looking to the Federal Government for help as they seek to comply with the EU emissions trading scheme. More than 12,000 factories and power plants in Europe are subject to emissions caps, affecting many U.S. multinationals with operations in Europe.

I applaud the hard work that has been done by many of my colleagues on the issue of global warming. In past Congresses, we have seen productive work both in terms of discrete bills, such as that by Senators MCCAIN and LIEBERMAN or the abrupt climate change bill by Senator COLLINS, or as part of large legislation, such as the bipartisan climate change titles in past comprehensive energy bills. It is clear that most Members of the Senate understand the importance of global warming. I hope that we will continue to work together this Congress on a path toward sensible climate legislation. For my part, as the ranking member on the Senate Committee on Energy and Natural Resources, I hope that we can find a way to continue to integrate global warming concerns in energy legislation.

Energy legislation is an appropriate place to deal with global warming. I have said many times that climate change is so closely related to energy policy because the two most prominent greenhouse gases—that is, carbon dioxide and methane—are largely released due to energy production and use. To a large extent, to do energy legislation is to do climate legislation and vice versa.

As we consider climate in an energy context, I would like to lay out three principles that I stand for and that I think are important. I think that these principles are both modest and aimed at providing more certainty to decisions that need to be made by the many actors who are part of our national energy picture.

The first principle is to have a sensible plan to reduce emissions of carbon dioxide. I am very impressed with the recent proposal by the bipartisan National Commission on Energy Policy in this regard. They have presented a well-thought out plan to create a mandatory emission trading scheme that protects the economy and provides the essential framework for certainty.

Industry needs the certainty of a program that will help them make investment decisions for the future without causing them to prematurely retire capital stock. For example, I would bring to the Senate's attention the recent report of the Cinergy Corporation and their detailed analysis of the implications of potential greenhouse gas regulations. They conclude that neither their company, nor their region, nor this country would be endangered in the face of a modest greenhouse gas emissions policy that includes a safety valve to protect against shocks to the economy. This approach has been championed by well known economists such as Glenn Hubbard and Joseph Stiglitz, as well as institutions such as Resources for the Future, the Climate Policy Center and the Washington Post.

Protecting our economy will not come from ignoring the situation. Lack of attention is as detrimental as legislation that is too aggressive. The Energy Commission's proposal is the right mix of modesty and certainty.

The second principle is to couple any emission reduction plan with robust technology research and development and a broader energy package that addresses energy supply from nuclear power, renewable energy, natural gas, IGCC, and other sources. We need our approach to research and development to be strategic in the sense of creating new options for dealing with greenhouse gases in an economic way.

The third and final principle I wanted to mention is the need to enact policies that affect emissions trends in developing countries, at the same time that we try to deal with emissions trends here. EIA has projected that we will soon be overtaken by the developing countries in terms of greenhouse gas emissions. At the same time, these developing countries are not required by the Kyoto Protocol to reduce emissions. This has been a key point for opponents of the Protocol who are worried about losing competitive advantage to countries with weak environmental standards.

In terms of the long-term resolution of this issue and the competitiveness of the U.S. economy, it is essential that the United States and developing countries coordinate action. One way to do this is to link progress in the United States to policies overseas. Here again I point to the Energy Commission proposal that links progress on American action to what is done by the international community.

Climate change is important to the international community. It is important to Prime Minister Blair and the other members of the G–8 who will be meeting later this year. And, finally, it is important to all Americans.

I intend to propose some sensible climate legislation at an appropriate point that is consistent with the principles I have laid out here.

I hope we can address elements of it in energy legislation as it moves forward through Congress. We need to find a way to move forward, and I believe we can before this Congress concludes.

I ask unanimous consent that several items be printed in the RECORD: First, an editorial out of the Washington Post entitled ''A Warming Climate''; second, a letter from Glenn Hubbard, professor, Columbia University, and Joseph Stiglitz, professor, Columbia University to JOHN MCCAIN and JOSEPH LIEBERMAN; third, a summary of the Report to Stakeholders on air issues that has been developed by Cinergy Corporation; and finally, a summary of recommendations of the National Commission on Energy Policy entitled Ending the Energy Stalemate.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Washington Post, Jan. 28, 2005]

A WARMING CLIMATE

For the past four years members of the Bush administration have cast doubt on the scientific community's consensus on climate change. But even if they don't like the science, British Prime Minister Tony Blair, one of their closest allies in Iraq and elsewhere, has given the administration another, more realpolitik, reason to rejoin the climate change debate: ''If America wants the rest of the world to be part of the agenda it has set, it must be part of their agenda, too,'' the prime minister said this week.

Mr. Blair's speech came at an interesting moment, both for the administration's energy and climate change policies and for the administration's diplomatic agenda. In the next few weeks, the House will almost certainly vote once again on last year's energy bill, a mishmash of subsidies and tax breaks that finally proved too expensive even for a Republican Senate to stomach. After a House vote, there may be an attempt to trim

the cost of the bill and add measures to make it acceptable to more senators—including the growing number of Republicans who have, sometimes behind the scenes, indicated an interest in climate change legislation. Indeed, any new discussion of energy policy could allow Sens. John McCain (R–Ariz.) and Joseph I. Lieberman (D–Conn.) to seek another vote on their climate change bill, which would establish a domestic ''cap and trade'' system for controlling the greenhouse gas emissions that contribute to global warming.

If domestic politics could prompt the president to look again at the subject, international politics certainly should. Administration officials assert that mending fences with Europe is a primary goal for this year; if so, the relaunching of a climate change policy—almost any climate change policy—would be widely interpreted as a sign of goodwill, as Mr. Blair made clear. Beyond the problematic Kyoto Protocol, there are ways for the United States to join the global discussion, not least by setting limits for domestic carbon emissions.

Although environmentalists and the business lobby sometimes make it sound as if no climate change compromise is feasible, several informal coalitions in Washington suggest the opposite. The Pew Center on Global Climate Change got a number of large energy companies and consumers—including Shell, Alcoa, DuPont and American Electric Power—to help design the McCain-Lieberman legislation. A number of security hawks have recently joined forces with environmentalists to promote fuel efficiency as a means of reducing U.S. dependence on Middle Eastern oil. Most substantively, the National Commission on Energy Policy, a group that deliberately brought industry, environmental and government experts together to hash out a compromise, recently published its conclusions after two years of debate. Among other things, it proposed more flexible means of promoting automobile fuel efficiency and suggested determining in advance exactly how high the ''price'' for carbon emissions should be allowed to go, thereby giving industry some way to predict the ultimate cost of a cap-and-trade system.

They also point out that legislation limiting carbon emissions would immediately create incentives for industry to invent new fuel-efficient technologies, to build new nuclear power plants (nuclear power produces no carbon) and to find cleaner ways to burn coal. Technologies to reduce carbon emissions as well as fossil fuel consumption around the world are within reach, in other words—if only the United States government wants them.

COLUMBIA UNIVERSITY,
GRADUATE SCHOOL OF BUSINESS,
New York, NY, June 12, 2003.

Hon. JOHN MCCAIN,
Russell Office Building,
Washington, DC.
Hon. JOSEPH LIEBERMAN,
Hart Senate Office Building,
Washington, DC.

DEAR SENATORS MCCAIN AND LIEBERMAN: As Congress takes up the issue of market-based systems to reduce emissions of carbon dioxide and other greenhouse gases, we are writing to encourage you to incorporate an allowance price cap sometimes referred to as a ''safety valve.'' In the context of a cap-and-trade system for emission allowances, a safety valve would specify a maximum market price at which the government would step in and sell additional allowances to prevent the price from rising any further. Much like the Federal Reserve intervenes in bond and currency markets to protect the economy from adverse macroeconomic shocks, this intervention is designed to protect the economy automatically from adverse energy demand and technology shocks. While we disagree on what steps are necessary in the short run, we both agree it is particularly important to pursue them in a manner that limits economic risk.

Our support for the safety valve stems from the underlying science and economics surrounding the problem of global climate change, and is something that virtually all economists—even two with as politically diverse views as ourselves—can agree upon. It is based on three important facts.

First, unexpected events can easily make the cost of a cap-and-trade program that includes carbon dioxide quite high, even with a modest cap. For example, consider an effort to reduce domestic carbon dioxide emissions by 5% below future forecast levels over the next ten years—to about 1.8 billion tons of carbon. This is in the ballpark of the domestic reductions in the first phase of McCain-Lieberman allowing for offsets, the targets in the Bush climate plan, and the level of domestic emission reductions described by the Clinton administration under its vision of Kyoto implementation. Based on central estimates, the required reductions would amount to about 90 million tons of carbon emissions, and might cost the economy as a whole around $1.5 billion per year. However, reaching the target could instead require 180 million tons of reductions because of otherwise higher emissions related to a warm summer, a cold winter, or unexpected economic growth. Based on alternative model estimates, it could also cost twice as much to reduce each ton of carbon. The result could be costs that are eight times higher than the best guess.

Second and equally important, the benefits from reduced greenhouse gas emissions have little to do with emission levels in a particular year. Benefits stem from eventual changes in atmospheric concentrations of these gases that accumulate over very long periods of time. Strict adherence to a short-term emission cap is therefore less important from an environmental perspective than the long-term effort to reduce emissions more substantially. Without a safety valve, cap-and-trade risks diverting resources away from those long-term efforts in order to meet a less important short-term target.

Finally, few approaches can protect the economy from the unexpected outcome of higher energy demand and inadequate technology as effectively as a safety valve. For example, opportunities to seek offsets outside a trading program can effectively reduce the expected cost of a particular emission goal—which is beneficial—but that does not address concerns about unexpected events. In fact, if the system becomes dependent on these offsets, their inclusion can increase uncertainty about program costs if the availability and cost of the offsets themselves is not certain. Another proposal, a ''circuit breaker,'' would halt future declines in the cap when the allowance price exceeds a specified threshold, but would do little to relax the current cap if shortages arise. Features that do provide additional allowances when shortages arise, such as the possibility of banking and borrowing extra allowances, are helpful, but only to the extent they can ameliorate sizeable, immediate, and persistent adverse events.

To summarize, the climate change problem is a marathon, not a sprint, and there is little environmental justification for heroic efforts to meet a short-term target. Such heroic efforts might not only waste resources, they risk souring our appetite to confront the more serious long-term problem. Absent a safety valve, a cap-and-trade program risks exactly that outcome in the face of surprisingly high demand for energy or the failure of inexpensive mitigation opportunities to arise as planned. A safety valve is the simplest, most transparent way to signal the market about the appropriate effort to meet short-term mitigation goals in the face of adverse events.

While trained economists hold divergent views on many topics—as our own views demonstrate—economic theory occasionally delivers a relatively crisp message that virtually everyone can agree on. We believe this is one of those occasions, and hope you will consider these points as Congress addresses various climate change policies in the coming months.

Sincerely,

R. GLENN HUBBARD,
Professor, Columbia University, Chairman, Council of Economic Advisers.
JOSEPH E. STIGLITZ,
Professor, Columbia University, Chairman, Council of Economic Advisers.

AIR ISSUES—REPORT TO STAKEHOLDERS
EXECUTIVE SUMMARY

This report discusses the potential impact on Cinergy Corp.'s operations and risk exposure should Congress pass legislation requiring limits on the emissions of greenhouse gases (GHGs), or if GHG emissions are otherwise limited by treaty, regulations or judicial action. We have worked with a respected shareholder group, Committee on Mission Responsibility Through Investment of the Presbyterian Church (U.S.A.), and Ceres to discuss the potential for eventual GHG regulations and their consequences on the coal-fired electric generating industry in general, and on Cinergy in particular.

Cinergy operates nine coal-fired generating stations and burns almost 30 million tons of coal per year. We generate approximately 70 million gross megawatt hours of electricity for use by our 1.5 million customers in southwestern Ohio, northern Kentucky and much of Indiana. Our newer stations, representing 35 percent of our total generation, operate with sulfur dioxide (SO_2) scrubbers, while approximately 50 percent of our generation has been fitted with selective catalytic reduction equipment (SCRs), which reduces nitrogen oxides (NO_X) emissions. Our operations are in full compliance with all applicable clean air laws and regulations. We have recently announced a significant construction program of additional emission control equipment to comply with more restrictive pending regulations.

The first comprehensive regulation of air emissions occurred in 1970 when Congress passed the first Clean Air Act (CAA) and established the Environmental Protection Agency (EPA). The CAA has been amended at various times in the last 34 years, most recently in 1990.

Early regulations were based on ''command and control'' that prescribed the maximum amount of a specified ''pollutant'' a company was allowed to emit in a given time frame from a particular unit. Command and control often did not allow any flexibility or account for individual characteristics in the age or type of coal-fired generating stations. Command and control regulations also failed to recognize other important variables that could have lowered compliance costs.

In the 1990 CAA Amendments, Congress replaced command and control regulations in certain air emissions programs with a newer mechanism—''cap and trade.'' Cap and trade uses the market to produce a far more efficient, least-cost approach to achieving a prescribed level of emissions reductions. Cap

and trade imposes a cap on the level of permissible emissions, yet offers companies flexibility by recognizing the large number of technical and operational differences in regulated facilities. This flexibility allows generators to make decisions based on economic and environmental factors and provides incentives to reduce emissions below threshold requirements. An emissions ''cap'' is achieved, but the exact reductions occur where they are most economic. Emissions ''credits'' are traded with units where reductions are not as easily or economically achieved. The result, proven over the last 14 years, is improved air quality at less cost to electric customers than under command and control regulation.

In early 2004, the EPA proposed new rules to further control $S0_2$, NO_X and, for the first time, mercury emissions from coal-fired generating stations. The EPA proposed requirements after Congress was unable to pass several emissions reduction bills presented to it, including President Bush's Clear Skies Act. Cinergy expects the EPA to finalize the rule further reducing $S0_2$ and NO_X emissions before the end of 2004 and anticipates the final mercury rule to be issued by March 2005.

Presently, GHG emissions are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none has been approved. We anticipate the climate change debate will continue into the 109th Congress, but believe it is unlikely legislation requiring GHG limits will be passed in the next two years.

Our costs to comply with these or other new environmental regulations will depend on a number of factors, including the timetables, levels of emissions reduction required, the impact on coal prices and, most importantly, whether the EPA will adopt a cap and trade or a command and control approach to further regulation.

In anticipation of the proposed rules on $S0_2$, NO_X and mercury, in September 2004, Cinergy announced the largest environmental construction project in its history, asking state regulators to approve a plan that would retrofit scrubbers and SCRs on generating units not currently equipped with these devices. The company also intends, as a pilot project, to install large scale mercury control equipment at a generating station in southern Indiana. The cost for the entire program is projected to be between $1.65 and $2.15 billion through the next decade, depending on whether the ultimate regulations adopt cap and trade or command and control. This plan has been developed so as to comply with a command and control regulatory scheme, with the ability to reduce certain aspects of the plan should cap and trade ultimately be the method of regulation.

The uncertainty Cinergy faces in the current regulatory climate has made it difficult to plan the capital expenditures we will need to make to comply with all environmental requirements while continuing to serve our customers' future energy needs in a reliable manner. Overlapping regulations with differing implementation timelines are inefficient and unnecessarily costly for the company and its customers. Cinergy has asked Congress to act and has urged passage of a long-term, multi-emissions bill that would take the unnecessary uncertainty out of national environmental policy.

Although we do not believe Congress will soon vote to regulate GHGs, we remain hopeful that it will move forward on legislation that provides greater certainty regarding the levels and timetables for reducing emissions of SO_2, NO_X mercury and particulates. We do believe, however, as our CEO Jim Rogers has said, that we eventually will operate our business ''in a carbon-constrained world'' and that it is our responsibility to prepare for that likelihood. We began that preparation in September 2003 by launching a voluntary GHG emissions reduction program, partnering with Environmental Defense and in concert with the President's Climate Leaders program.

Cinergy's goal is to reduce our GHG emissions to five percent below our 2000 level during the period between 2010 and 2012. With our 2000 CO_2 emissions at approximately 74 million tons, we intend to reduce our emissions to no more than 70 million tons per year through the period 2010–2012. We have committed $21 million to fund projects through the remainder of this decade to help us reach this voluntary goal. We plan to achieve these reductions despite a steadily rising demand for electricity by our customers and greater internal needs for electric generation to operate the pollution control equipment being installed at most of our stations. Given historical trends in electric demand, we estimate that we will need to cut GHG releases by a total of 30 million tons versus the business-as-usual case.

It is important to note that we must accomplish this goal without access to a readily available CO_2 control technology. Unlike SO_2 NO_X, mercury and particulates, there is no ''carbon machine'' that can remove GHG emissions from our stations. Instead, we expect to meet the goal by improving energy efficiency at our stations, employing effective demand side management programs, adding renewable energy to our generation mix, sequestering carbon through forest preservation, purchasing allowances when economically prudent and, possibly, sequestrating GHGs in underground geologic formations. This latter program would most likely be linked to a demonstration project at a utility scale integrated gasification combined cycle (IGCC) plant that we considering for our next ''base load'' facility. Cinergy recently announced a joint project with General Electric Company and Bechtel Corporation to study the feasibility of constructing an IGCC station in Indiana. We expect that the IGCC plant will run more efficiently than traditionally constructed coal-fired generation and will, thus, contribute fewer CO_2 tons per megawatt of electricity produced.

Cinergy's expertise is also being deployed outside of our legacy utility businesses. Over the last several years, we have created two companies that provide energy management services to a number of industrial and large commercial customers. These services have resulted in significant GHG emissions reductions and operating efficiencies for those customers. To date, we estimate these programs have resulted in the reduction of three million tons of GHGs.

We anticipate that our voluntary program will help us learn about effective methods of obtaining GHG emission reductions and help us comply with any future regulatory program limiting GHG. Regardless of our planning, however, our ultimate strategy for complying with GHG-restricting regulations will depend greatly on the final direction and timing of such requirements. A well-constructed policy that gradually and predictably reduces emissions can be managed without undue disruption to the company or economy, though even the best plan will have rate impacts on our customers. Much of the future impacts also depend on how readily new technologies emerge, as well as the response of the gas market and resulting gas prices.

Cinergy and its generating stations are similar to other coal-fired utilities in our market region. Natural gas-fired units in our region are typically the market's price setters—meaning that they are the last units to be deployed or ''dispatched'' to meet short term peak demand—so they would not enjoy any particular advantage With CO_2 constraints unless gas prices were to drop dramatically, which is a scenario we find highly unlikely. Nuclear and hydropower stations will be well-positioned, though neither is likely to displace coal-fired generation in the short to medium timeframes because their capacity is fully utilized now, with no new construction anticipated in the near term. Renewable energy may well increase in the future, but there are significant impediments, both technologically and economically, before it will make much of an impact in the Midwest.

Coal fuels more than 80 percent of the Midwest electric market. We do not see it being displaced as the main fuel source for electric production without what we believe would be unacceptable economic and social consequences, not only to the region, but to the entire nation. Although other alternatives are likely to become more economic or practical over time with technological breakthroughs, the nation cannot dismiss a fuel that is as domestically abundant as coal. The capital expenditures we are making at our stations today to comply with the EPA's pending rules are prudent investments because we expect that the generating units will remain economically viable under any reasonable GHG program. We do not believe the resulting price dynamics in the natural gas market will render operation of our coal-fired generating stations cost-prohibitive.

The preparation of this report demonstrates our desire to inform our stakeholders of the GHG challenges we face as a coal-fired electric utility company and to provide insight into how we are meeting those challenges. Because we are a stakeholder-focused company, it is our goal to weigh the interests of all of our stakeholders and come to a balanced result. Our customers, the communities we serve, our employees, regulators, suppliers and most certainly our investors have much at stake as we anticipate and begin to prepare for the challenges we may face in a carbon-constrained world.

We do not project that any of the current legislative proposals would produce these higher prices in the short or medium timeframe. However, this example manifests the importance of developing a policy that does not force reductions too quickly or otherwise limit flexibility and international trading.

Risk of Very High CO_2 Prices Unlikely—Though Details Matter

It is our view that the very high range of prices shown above would only be expected in the near term (20 years) if sharp emissions reductions were required without being preceded by a period of slowed growth followed by zero growth or there were imposed limits on flexibility. Having said that, the fact is we don't know what prices will be and the risk remains. Should high CO_2 prices emerge within the next 20 years, they would flow through to electricity prices because there would be no time to replace the generation fleet with much lower emitting technologies that do not rely on high-priced natural gas. Because electricity prices play an important role in our manufacturing economy, we think that policies that cause dramatic price increases are not viable and, should they occur, would not last long because of political reaction.

One strategy to protect consumers and producers from CO_2 price risks may be to assign price caps to CO_2 that increase over time—this is the so called ''safety valve.'' Price caps will provide price certainty (or at

least protection from high prices) during the critical years of program start up. This should be important to climate change advocates because price shocks will likely result in a program reversal or unwinding. An unrelated, yet telling example is provided by the price shocks of the California energy crisis, brought on by flawed deregulation. They demonstrate how a program can be quickly scrapped if newly created markets are subjected to dramatic price increases.

Escalating price caps should be given serious attention by policy makers because of the following important points:

1. There is a broad range of uncertainty around forecasted CO_2 prices as reported by policy analysts. Reported prices are only the single values within a broad distribution of outputs that depend on what input assumptions are made.

2. The actual prices generated by a real market will be higher or lower than the reported numbers and will vary depending on the supply-demand balance at any particular moment.

3. If they happen to be quite a lot higher for a sustained period, which is a real possibility, the program will be at risk of being rolled back because of the economic pain generated.

4. An escalating price cap will prevent this from happening, while creating a less uncertain price signal for those trying to make forward looking decisions.

5. An escalating price cap will serve as the program's insurance policy, dramatically decreasing the risk of the program producing very high prices that lead to its demise.

ENDING THE ENERGY STALEMATE: REDUCING RISKS FROM CLIMATE CHANGE

To address the risks of climate change resulting from energy-related greenhouse gas emissions without disrupting the nation's economy, the Commission recommends:

Implementing in 2010 a mandatory, economy-wide tradable-permits system designed to curb future growth in the nation's emissions of greenhouse gases while capping initial costs to the U.S. economy at $7 per metric ton of carbon dioxide-equivalent.

Linking subsequent action to reduce U.S. emissions with comparable efforts by other developed and developing nations to achieve emissions reductions via a review of program efficacy and international progress in 2015.

The Commission believes the United States must take responsibility for addressing its contribution to the risks of climate change, but must do so in a manner that recognizes the global nature of this challenge and does not harm the competitive position of U.S. businesses internationally.

The Commission proposes a flexible, market-based strategy designed to slow projected growth in domestic greenhouse gas emissions as a first step toward later stabilizing and ultimately reversing current emissions trends if comparable actions by other countries are forthcoming and as scientific understanding warrants.

Under the Commission's proposal, the U.S. government in 2010 would begin issuing permits for greenhouse gas emissions based on an annual emissions target that reflects a 2.4 percent per year reduction in the average greenhouse gas emissions intensity of the economy (where intensity is measured in tons of emissions per dollar of GDP).

Most permits would be issued at no cost to existing emitters, but a small pool, 5 percent at the outset, would be auctioned to accommodate new entrants, stimulate the market in emission permits, and fund research and development of new technologies. Starting in 2013, the amount of permits auctioned would increase by one-half of one percent each year (i.e., to 5.5 percent in 2013; 6 percent in 2014, and so on) up to a limit of 10 percent of the total permit pool.

The Commission's proposal also includes a safety valve mechanism that allows additional permits to be purchased from the government at an initial price of $7 per metric ton of carbon dioxide (CO_2)-equivalent. The safety valve price would increase by 5 percent per year in nominal terms to generate a gradually stronger market signal for reducing emissions without prematurely displacing existing energy infrastructure.

In 2015, and every five years thereafter, Congress would review the tradable-permits program and evaluate whether emissions control progress by major trading partners and competitors (including developing countries such as China and India) supports its continuation. If not, the United States would suspend further escalation of program requirements. Conversely, international progress, together with relevant environmental, scientific, or technological considerations, could lead Congress to strengthen U.S. efforts.

Absent policy action, annual U.S. greenhouse gas emissions are expected to grow from 7.8 billion metric tons of CO_2-equivalent in 2010 to 9.1 billion metric tons by 2020—a roughly 1.3 billion metric ton increase. Modeling analyses suggest that the Commission's proposal would reduce emissions in 2020 by approximately 540 million metric tons. If the technological innovations and efficiency initiatives proposed elsewhere in this report further reduce abatement costs, then fewer permits will be purchased under the safety valve mechanism and actual reductions could roughly double to as much as 1.0 billion metric tons in 2020, and prices could fall below the $7 safety valve level.

The impact of the Commission's proposed greenhouse gas tradeable-permits program on future energy prices would be modest. Modeling indicates that relative to business-as-usual projections for 2020, average electricity prices would be expected to rise by 5–8 percent (or half a cent per kilowatt-hour); natural gas prices would rise by about 7 percent (or $0.40 per mmBtu); and gasoline prices would increase 4 percent (or 6 cents per gallon). Coal use would decline by 9 percent below current forecasts, yet would still increase in absolute terms by 16 percent relative to today's levels, while renewable energy production would grow more substantially; natural gas use and overall energy consumption, meanwhile, would change only minimally (1.5 percent or less) relative to business-as-usual projections.

Overall, the Commission's greenhouse gas recommendations are estimated to cost the typical U.S. household the welfare equivalent of $33 per year in 2020 (2004 dollars) and to result in a slight reduction in expected GDP growth, from 63.5 percent to 63.2 percent, between 2005 and 2020.

The PRESIDING OFFICER. The Senator from Missouri.

SMALL BUSINESS HEALTH FAIRNESS ACT

Mr. TALENT. Madam President, I am hopeful that later in the day the Senate will be able to take up the Genetic Nondiscrimination Act. It is a bill I sponsored in the past. I know discussions are going on right now about getting it done, and hopefully we will be able to get it done. If that happens, it will be in no small measure because of the leadership of Senator ENZI, who has already shown in the brief period that we have been in session a great ability to work with Senator KENNEDY and others on the HELP Committee to pass legislation.

I was moved by that to come down and to discuss another piece of legislation that a number of us are discussing with Chairman ENZI. I am grateful to him for his openmindedness to it and the discussions that have been going on. I am talking about the Small Business Health Fairness Act which the chairman of the Small Business Committee, Senator SNOWE, will introduce today for herself and a number of others who have sponsored this bill in the past.

I congratulate Senator SNOWE on her great work on behalf of this bill. I am hopeful that we will be able to pass it this year in the Senate. It may be the most significant thing we can do to reduce the number of people in this country who do not have health insurance.

I want to talk about that for a few minutes. There really is no problem in confronting small business and the economy greater than that problem. It is everybody's problem, even if you have health insurance.

There are 44 million people in the country who do not have health insurance. We have about 500,000 people in Missouri—about 10 percent of our State's population, a little less than that, including 70,000 children who get up and go to school without any health insurance coverage.

Sixty percent of the people in the State of Missouri and around the United States who do not have health insurance are working people. It is a mistake to assume that most of these folks are people who are not employed. They are not classically the disadvantaged people as we normally think of that. Most of those folks we have made eligible for Medicaid, which certainly has a problem, but it is at least health insurance coverage.

Health insurance costs have been increasing for small business employers and their employees on average about 20 percent per year, which means this is not just a health access problem but a huge economic growth problem as well.

Those small businesses that are providing health insurance are having to deal with these enormous costs every year. They will have to take money out of wages or out of investments in the business to try to keep their heads above water in terms of providing health insurance.

Over the years of my experience in the House and the Senate, I have encountered many such small employers. I have talked to hundreds of their employees. We have all done that. All of us, when we get around our States, hear about this problem. It is everywhere. It may be the biggest day-to-day problem the average person in our State confronts, at least if they work for a small business.

Let me just tell you one story of a fine lady named Janet Hoppin from